Central Puget Sound Regional Transit Authority

Schedule of Subarea Equity for the Year Ended December 31, 2004

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SOUND TRANSIT

Fact: Subarea Equity

One of the unique features of the Sound Transit plan is that it delivers a fair share of investments to each of Sound Transit's five geographic areas – Snohomish County, North King County, South King County, East King County and Pierce County.

The principle of subarea equity assures that Sound Transit taxes raised within an area are used for capital projects and operations that directly benefit that area.

- Money raised in East King County, for example, is paying for ST Regional Express bus routes that serve East King County as well as several capital projects such as new transit centers and park-and-ride lots located throughout that subarea. Similarly, money raised in Pierce County pays only for products and services that benefit Pierce County – ST Express buses and capital projects, Sounder commuter rail and Tacoma Link light rail.

- Each subarea has its own budget based on anticipated local revenues for that area plus any grants and partnership funds for specific projects.

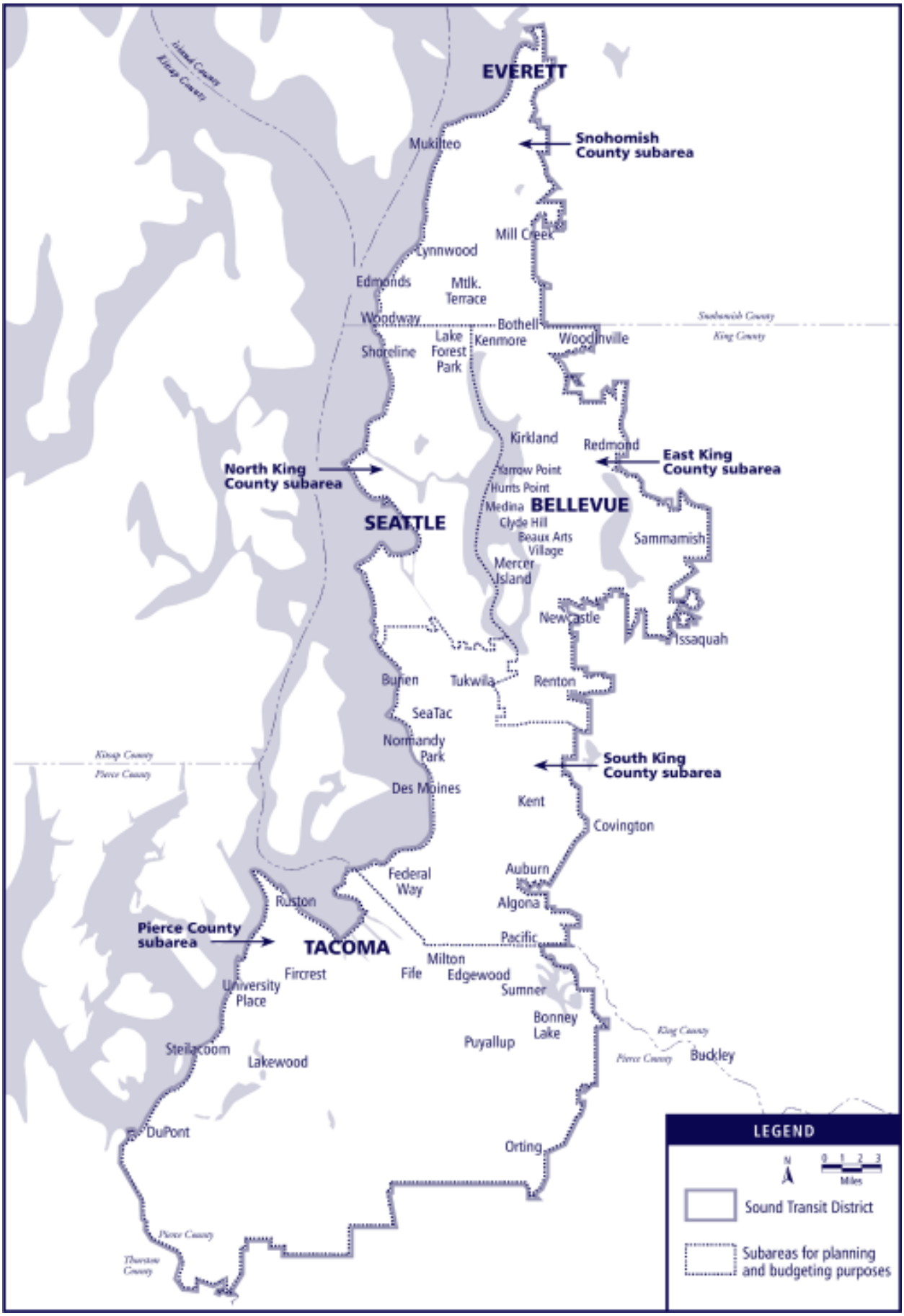
- Priority projects for each subarea were identified through a public process involving established local elected official organizations as part of the *Sound Move* plan prior to the 1996 election.

A subarea can borrow money based on the amount it raises in taxes. In other words, a subarea can borrow no more than it can pay back. No subarea will be asked to pay off the bonds from another subarea. The money from one subarea will not be used to subsidize shortfalls in another subarea.

Strong safeguards are in place

Changing the subarea equity policy would take two-thirds, or 12 votes, of the 18-member Sound Transit Board. Membership on the Sound Transit Board is divided proportionately among all subareas and no one subarea has a majority of 12 votes on the Board.

SOUND TRANSIT DISTRICT



Sound Transit District Subareas

The Sound Transit District is divided into five geographic subareas for planning and budgeting purposes. The system components in *Sound Move* address unique needs in each of these subareas. Local tax revenues and related debt for projects and services are utilized to benefit the subareas generally in proportion to the level of revenues each subarea generates.

Snohomish County:

The Snohomish County subarea of the Sound Transit District includes the cities of Brier, Edmonds, Everett, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo and Woodway. In 2004, the Snohomish County subarea had an estimated population of 409,000 residents, accounting for 64 percent of the Snohomish County population.

North King County:

The North King County subarea includes the cities of Seattle, Shoreline and Lake Forest Park. In 2004, the North King subarea had an estimated population of 638,000, accounting for 36 percent of King County's entire population.

South King County:

The South King County subarea includes the cities of Algona, Auburn, Burien, Des Moines, Federal Way, Kent, Normandy Park, Pacific, SeaTac and Tukwila. Since 1990, this has been the fastest growing area of King County. In 2004, the South King subarea had an estimated population of 515,000 residents, 29 percent of King County's population.

East King County:

The East King County subarea includes the cities of Beaux Arts, Bellevue, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Kirkland, Medina, Mercer Island, Newcastle, Redmond, Renton, Woodinville and Yarrow Point. In 2004, the East King subarea had an estimated population of 467,000 residents, accounting for 26 percent of King County's population.

The combined three King County subareas account for 91 percent of the total King County population.

Pierce County:

The Pierce County subarea of the Sound Transit District includes the cities of Bonney Lake, DuPont, Edgewood, Fife, Fircrest, Lakewood, Milton, Orting, Puyallup, Ruston, Steilacoom, Sumner, Tacoma and University Place. In 2001, the Pierce County subarea had an estimated population of 586,000 residents, accounting for 79 percent of the Pierce County population

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

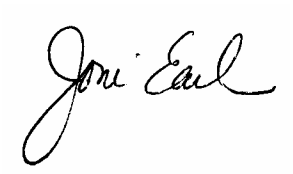
The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) have been prepared from the Agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgments, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

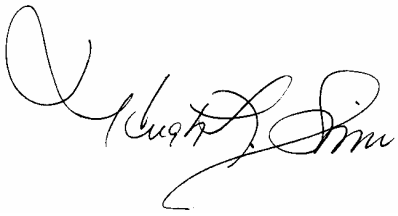
Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to perform certain agreed upon procedures on the 2004 Schedule of Subarea Equity. Their report includes the results from the performance of these procedures which were developed by management, the Audit and Reporting Subcommittee and the Citizen Oversight Panel.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.



Joni Earl
Chief Executive Officer



Hugh L. Simpson
Chief Financial Officer

Kelly Priestley
Controller

MANAGEMENT'S DISCUSSION ON SUBAREA EQUITY

For the year ending December 31, 2004

Management's Discussion on Subarea Equity ("MDSE") presents a narrative overview and analysis of the Agency's financial activities by subarea for the year ended December 31, 2004. This discussion is intended to assist readers of the schedule in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the Schedule of Subarea Equity as a whole and Sound Transit's audited financial statements.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties through commuter rail ("Sounder"), light rail ("Link") and an ST Express bus system ("ST Express"). The implementation of the initial phase of the voter-approved regional transportation system ("*Sound Move*") is scheduled for a 13-year period, ending in 2009.

The Agency is eight years into this initial phase and its activities to-date have been concentrated on implementing service in all three transit modes and on the design, environmental review and construction of Sound Transit's capital projects. The Agency is moving fully into construction in all three transit modes, with construction spending expected to peak from 2004 to 2007.

The concept of subarea equity is an integral part of the *Sound Move* plan approved by the voters in 1996 and requires that subarea equity be achieved by the completion of Phase 1. The *Sound Move* plan included *Appendix A: Detailed Description of Facilities and Costs* that defined subarea equity through programming projects and services. *Sound Move Appendix B: Financial Policies* defines the requirements of subarea equity through implementation, monitoring and adjustment policies. As required in *Appendix B*, the Agency has implemented an accounting system that details transactions and facilitates reporting of what has been earned and spent in each subarea and is the basis for the Schedule of Subarea Equity. The annual Report on Subarea Equity ensures that this system is in place.

Since 1998, Sound Transit has produced the Schedule of Subarea Equity and related notes. As part of the annual engagement with KPMG, LLP, an examination based on agreed-upon procedures has been performed with results reported to the Board's Audit and Reporting Subcommittee. To date, there have been no significant reported issues with the schedules or notes. Past reports are available on Sound Transit's web site.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses each year, as well as growth in capital projects in progress, and property, vehicles and equipment. As the Agency has not reached its full service levels and is in the early stages of construction on its light rail project, major sources of revenue exceed expenses and capital outlays, resulting in a rising net asset position.

Preparation of the Schedule of Subarea Equity

The Schedule of Subarea Equity is prepared from the Agency's accounting system upon which the financial statements are prepared. The totals by subarea, including the Regional Fund, are agreed to the audited financial statements, which are reported on separately by Sound Transit's auditors. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units and are prepared using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation

of Sound Transit are included in the Balance Sheets and depreciation of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

The Schedule of Subarea Equity presents the overall financial status by equity area, as well as their net assets, segregated by invested in capital assets, restricted and unrestricted. Net assets are the difference between assets and liabilities and over time may serve as a useful indicator of each subarea's financial position. However, the Schedule of Subarea Equity should be read together with Sound Transit's financial statements, which also include management's discussion and analysis of those statements, along with notes which provide additional information that is essential to a full understanding of the information provided.

Financial Highlights

- Total operating revenues in 2004 increased by $1.6 million from 2003, with passenger fares increasing by $1.6 million and other operating revenues comparable to the prior year. The increases were experienced relatively equal in all revenue service subareas, with the exception of South King County where passenger fares decreased by $0.3 million. The increased revenues reflect the addition of the Seattle-to-Everett service on Sounder, as well as increased bus passenger ridership on ST Express as a result of service changes.
- Total operating expenses in 2004, excluding depreciation and loss on disposal of assets, increased by $11.2 million from 2003. Consistent with the service changes on Sounder and ST Express, the largest increases in operating expenses were in Snohomish and East King County at $4.0 and $3.3 million respectively. South King County operating expenses were up $0.9 million and Pierce County, $1.8 million. Additional costs were able to be capitalized to projects in North King County as construction ramps up, resulting in a reduction from 2003 of $1.4 million. Regional Fund costs were up $2.6 million.
- Non-operating revenues (expenses) in 2004 decreased by $10.4 million from 2003. The largest decreases were in North King County and the Regional Fund, which decreased by $5.2 million and $11.4 million respectively. In North King County the decrease reflects supplemental mitigation payments in the Rainier Valley and a current loss on the change in the City of Seattle interlocal agreement that resulted in a decreased long-term funding commitment. In the Regional fund the decrease related to lower investment earnings of $4.3 million, higher fare integration subsidies to the other transit partners and greater spending on Phase II planning.
    - The lower earnings on investment and higher costs noted above were partially offset by higher tax revenues in all subareas, with the other subareas showing an increase in non-operating revenues (expenses) from 2003 as follows: Snohomish County, $1.3 million; South King County, 1.0 million; East King County, $3.6 million; and Pierce County, $0.3 million.
- Contributions in 2004 decreased by $31.7 million from 2003. The largest decreases were in East King County and Snohomish County reflecting the completion of the Lynnwood and Bellevue HOV projects. Partially offsetting the impact of the contribution of completed projects to other governments were higher grant revenues of $62.9 million, mostly in the North and South King County, reflecting drawdowns on Federal grants related to the Link Light rail project, as well as non-cash contributions of land or airspace leases from the State pursuant to the Land Bank agreement.
- Total net assets at December 31, 2004 were $2.1 billion, an increase of $180 million from 2003. An increase in net assets reflects an excess of revenues over expenses. Net assets increased in all subareas, except East King County and the Regional Fund which decreased by $21 and $18 million respectively. The decrease in East King County related to the completion of the Bellevue HOV project in East King County and in the Regional Fund lower non-operating revenues as well as no contributions in 2004 of tax from other subareas. Revenues exceeded expenses in all other subareas as follows: Snohomish County, $3 million; North King County, $122 million; South King County, $62 million; and Pierce County, $32 million.

Management's Discussion of Subarea Equity, continued

- Total capital assets, net of depreciation, were $1.8 billion at December 31, 2004, an increase of $407 million from 2003. Total net capital assets increased in all subareas except East King County, reflecting increased land and right-of-way acquisitions, receipt of the bus vehicles and an increase in capital projects in progress. The decrease in East King County reflects the completion of the Bellevue HOV project, the improvements of which relate to State-owned infrastructure. The increases (decrease) by subarea are as follows: Snohomish County, $68 million; North King County, $213 million; South King County, $93 million; East King County, ($2 million); and Pierce County, $33 million. Regional Fund capital assets increased by $2 million.
- At December 31, 2004 the unrestricted net amount available for investment in each subarea is: Snohomish County, ($48.4 million); North King County, $209.0 million; South King County, $117.3 million; East King County, $219.7 million; Pierce County, 47.2 million; and the Regional Fund, $91.8 million. The negative unrestricted net asset position in Snohomish County is being funded through inter-subarea loans which are required to be repaid prior to the completion of Phase I. These amounts represent what is available at December 31, 2004, based on the revenues, expenses and capital expenditures for *Sound Move* to date. These amounts do not take into account revenues, expenses, capital expenditures and bonds to be issued for the remainder of Phase I of *Sound Move*.

Financial Analysis

Excess of Revenues over Expenses and Change in Net Assets

In 2004 revenues exceeded expenses by $180.2 million, as compared to $237.4 million in 2003. While there are a number of significant fluctuations within the various revenue and expense categories, the underlying decrease in revenues over expenses from 2003 relates to an increase in the loss from operations of $15.1 million, a decrease in non-operating revenues of $10.3 million and a decrease in capital contributions of $31.8 million. A recap of significant changes by equity area is as follows:

- Snohomish County revenues exceeded expenses by $3.5 million, down $23.5 million from 2003. This decrease substantially relates to capital contributions to other governments of $25.6 million, related to the completion of the Lynnwood HOV Lanes, whereas in 2003 contributions to other governments were $2.6 million. In addition, with the addition of the Sounder Seattle-to-Everett at the end of 2003, loss from operations increased by $4.8 million, offset by higher tax revenues and federal grant revenues, as well as no contribution of tax revenues to the regional fund.
- North King County revenues exceeded expenses by $122.0 million, up $42.6 million from 2003. This increase relates to higher federal and state contributions of $43.9 million as spending occurs on the Link Light rail project and State contributions of land or airspace under the Land Bank agreement. Non-operating revenues (expenses) were $5.2 million lower than in 2003, as a result of mitigation payments in the Rainier Valley and the current loss on the change in the interlocal agreement with the City of Seattle. Tax revenues increased by $2.7 million.
- South King County revenues exceeded expenses by $62.5 million, up $17.2 million from 2003. This increase is attributable to $17.0 million in higher Federal and State capital contributions related to the Link Light rail project and Land Bank contributions. Loss from operations increased by $1.8 million reflecting higher service costs, offset by higher non-operating revenues (expenses) of $1.0 million arising from increased tax revenues.
- East King County expenses exceeded revenue by $21.4 million, down $69.2 million from 2003. With the completion of the Bellevue HOV project, contributions to other governments for completed projects increased by $72.5 million. In addition the loss from operations increased by $3.2 million, offset by higher tax revenues of $3.6 million, as well as no contribution in 2004 of tax revenues to the regional fund.

Management's Discussion of Subarea Equity, continued

- Pierce County revenues exceeded expenses by $31.7 million, which was comparable to 2003. A higher loss from operations, reflecting a full year of Link Light rail operations, was offset by lower contributions to other governments and no transfer of tax revenues to the regional fund. Tax revenues were up 3.6 million; however this was offset by lower investment, capital lease revenues and losses on disposal of assets.
- Regional Fund expenses exceeded revenues by $18.1 million, down $24.7 million from 2003. The decrease is attributable to higher non operating expenses of $11.4 million related to lower investment earnings, increased fare integration payments and expenditures on Phase 2 planning. In addition, as the Regional Fund is in a positive net asset position, no contributions of tax revenues were made in 2004 from the subareas to the regional fund.

Operating Revenues

Operating revenues are comprised of passenger fares and other revenues. Operating revenues increased in 2004 by $1.6 million all related to higher passenger fare income.

Passenger Fares

Sounder Commuter Rail:

Passenger fares for Sounder Commuter rail increased by $0.4 million or 22.8% over 2003. This increase reflects the addition of the Seattle-to-Everett service at the end of December 2003, as well as increased ridership on the Tacoma-to-Seattle segment. The Seattle-to-Everett service was provided as a free fare service in the month of January. In addition, the fare allocation rule was updated for the new service with 100% of the fares attributable to ridership on the Seattle-to-Everett segment allocated to Snohomish. On the Seattle-to-Tacoma segment fares are allocated based on a.m. boardings as determined through ridership surveys. This resulted in a shift in passenger fares between the South King County and Pierce County equity areas.

Table S-1

Sounder Passenger Fares by Equity Area

(in thousands)	As of December 31,			% Change	
	2004	**2003**	**2002**	**2004 - 2003**	**2003 - 2002**
Snohomish County	$ 199.5	$ -	$ -	100.0%	-
North King County	-	-	-	-	-
South King County	730.5	1,196.8	889.8	(39.0%)	34.5%
East King County	-	-	-	-	-
Pierce County	1,333.0	646.5	686.1	106.2%	(5.8%)
Total Passenger Fares	**$ 2,263.0**	**$ 1,843.3**	**$ 1,575.9**	**22.8%**	**17.0%**

ST Express Bus Service:

Passenger fares for ST Express Bus service increased overall by $1.2 million or 11.9%, reflecting the full year impact of service implementation changes from September 2003, whereby ST Express discontinued a low ridership route serving Everett to Northgate, replacing it with full time service between Ash Way Park-and-Ride and Seattle. In addition, there were also major service improvements between East Redmond and Seattle and along the SR-167 corridor. These changes had the most significant impact in East King County and Snohomish County, which increased by $0.5 million and $0.3 million respectively. Fare revenue also

increased in South King County by $0.2 million and in Pierce County by $0.1 million, likely an indirect result of higher gas prices. The average fare per boarding in 2004 was comparable to 2003.

Table S-2

Regional Express Passenger Fares by Equity Area

(in thousands)	As of December 31,			% Change	
	2004	**2003**	**2002**	**2004 - 2003**	**2003 - 2002**
Snohomish County	$ 1,564.3	$ 1,202.2	$ 1,011.8	30.1%	18.8%
North King County	-	-	-	-	-
South King County	845.6	691.0	560.0	22.4%	23.4%
East King County	5,764.0	5,248.8	3,791.4	9.8%	38.4%
Pierce County	2,768.6	2,639.3	2,286.2	4.9%	15.4%
Total Passenger Fares	**$ 10,942.5**	**$ 9,781.3**	**$ 7,649.4**	**11.9%**	**27.9%**

Other Operating Revenues

Other revenue consists of vehicle advertising, rental of equipment, property and facilities and other miscellaneous and was comparable to 2003. Sounder vehicle lease revenue increased from the prior year, primarily due to the full year impact of additional vehicle rentals in 2003. Vehicle lease revenue is allocated by subarea on the same basis with which the equipment has been capitalized and impacts Snohomish County, South King County and Pierce County. This increase was offset by lower short-term property rental income which relate to property acquired for the purpose of building light rail and primarily impact North King County. With the increase in construction activity related to Link light rail in 2004, short-term property rental income decreased from the prior year.

Operating Expenses

Operating expenses are comprised of operations and maintenance costs, general and administrative expenses, loss on disposal of assets and depreciation.

Operations and Maintenance

Operations and maintenance includes costs associated with the operation of the Sounder commuter rail and ST Express bus services. Major expense categories are services, materials, supplies, utilities, insurance, taxes, purchased transportation, allocated overhead from staff divisions, operating leases and rentals. Operations and maintenance increased in 2004 by $10.4 million or 17.3%. Most of the increase was in purchased transportation which increased by $6.2 million or 14.3% and related to higher service levels. In addition to service level changes in ST Express as described above under ST Express Bus Service, 2004 results include a full year of Tacoma Link light rail operations, which went into service at the end of August 2003, and the implementation of the Sounder Seattle-to-Everett service. The impact of these major service additions was $1.0 million and $2.0 million respectively.

Management's Discussion of Subarea Equity, continued

A summary of operating costs by subarea is as follows:

Table S-3

Operations and Maintenance by Equity Area

(in thousands)	As of December 31,			% Change	
	2004	**2003**	**2002**	**2004 - 2003**	**2003 - 2002**
Snohomish County	$ 9,560.0	$ 5,624.8	$ 5,599.5	70.0%	0.5%
North King County	-	-	-	-	-
South King County	13,036.0	11,840.3	10,486.7	10.1%	12.9%
East King County	25,651.0	22,018.7	18,701.6	16.5%	17.7%
Pierce County	22,623.0	20,939.3	16,217.8	8.0%	29.1%
Regional Fund	-	-	-	-	-
Total Operations and Maintenance	**$ 70,870.0**	**$ 60,423.1**	**$ 51,005.6**	**17.3%**	**18.5%**

With the exception of Snohomish County, variances by subarea are consistent with the prior year and relate to purchased transportation costs for service increases. The increase in Snohomish County relates to the commencement of the Seattle-to-Everett Sounder service, as well as service increases on ST Express with the addition of full time service between Ash Way Park-and-Ride and Seattle in September 2003.

General and Administrative

General and administrative expenses are comprised of Agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses. Total Agency staff and administrative costs before allocation to capital projects increased in 2004 by $791 thousand or 4.5% from 2003.

Before allocation to capital projects and operations, total Agency staff and administrative costs increased in 2004 by $5.0 million or 11.8% from 2003. The increase primarily related to higher salary and benefit costs of $3.6 million, as staff was added to meet the increased capital program and operations activity. General and administrative costs are allocated to capital projects and transit operations based on activity drivers and relative level of spending. Costs allocated to capital projects in 2004 were $24.6 million and to transit operations and maintenance were $5.4 million, both allocations up $2.0 million from 2003, reflecting the higher salary costs and activity levels within the Agency. Also included in general and administrative costs are any write-off of overhead from projects. As projects approach completion, allocated overhead costs are reviewed and any excess costs are written off. In 2004, $0.3 million in excess costs were written off as compared to $0.7 million in 2003.

Management's Discussion of Subarea Equity, continued

A summary of general and administrative costs by subarea is as follows:

Table S-4

General and Administrative Costs by Equity Area

(in thousands)	As of December 31,			% Change	
	2004	2003	2002	2004 - 2003	2003 - 2002
Snohomish County	$ 58.9	$ 27.5	$ 334.9	114.2%	(91.8%)
North King County	1,187.8	2,649.9	2,348.9	(55.2%)	12.8%
South King County	489.0	817.0	523.5	(40.1%)	56.1%
East King County	99.8	438.9	1,260.2	(77.3%)	(65.2%)
Pierce County	768.2	583.6	3,525.0	31.6%	(83.4%)
Regional Fund	15,653.5	14,757.4	14,139.1	6.1%	4.4%
Total General and Administrative	**$ 18,257.2**	**$ 19,274.3**	**$ 22,131.6**	**(5.3%)**	**(12.9%)**

At a subarea level, small increases in general and administrative cost occurred in Snohomish and Pierce counties. North King, South King and East King counties all experienced a decrease. The decrease in North King and South King counties relates to a change in allocation of office space rental costs, reflecting increased utilization of outside office space by administrative functions. The decrease in East King County relates to a write-off of project overhead in 2003 (none in 2004).

Depreciation and Loss on Disposal of Assets

Depreciation expense increased by $5.4 million or 30.7%. As projects are completed and put into use, the costs of these assets are amortized over their expected useful lives. In 2004, in excess of $234.1 million of assets were put into use. Significant additions included in this increase is as follows: $109.2 million in South King County for Sounder rail access right earned on the completion of the first phase of track and signal improvement on the Seattle-to-Tacoma segment vehicles; $25.0 million in East King County for bus revenue vehicles; and, $12.0 million in revenue vehicles in South King County; $19.3 million in transit facilities in East King County; and $89.8 million in Pierce County also related to the Sounder rail access rights. Loss on disposal of assets in 2004 was $0.1 million.

Non-Operating Revenues (Expenses)

Non-operating revenue decreased by $10.4 million or 3.6% from the prior year. This decrease related to a $9.4 million decrease in investment income, a $10.5 increase in other non-operating expenses and $4.6 million current loss on a change in an interlocal agreement, partially offset higher tax revenues of $15.9 million. Other non-operating expenses included supplemental mitigation in the Rainier Valley, Phase II planning and fare integration subsidies to other transit agencies.

Significant changes by subarea included a $5.2 million decrease in North King County related to the loss on the change in the interlocal agreement as well as the CDF supplemental mitigation payments. While the change in the interlocal resulted in a current loss, it reduced future funding commitments over the life of the agreement. In East King County, non-operating revenues (expenses) increased by $3.6 million reflecting higher tax revenues earned in 2004 from 2003. Regional Fund non-operating revenues (expenses) decreased by $11.4 million as a result of lower investment earnings in 2004, as well as increased spending on Phase II planning and higher fare integration subsidies.

Management's Discussion of Subarea Equity, continued

Tax Revenues

Tax revenues consist of sales taxes, motor vehicle excise taxes and rental car taxes. Overall tax revenues were up $15.9 million or 5.9%. This increase was experienced across all subareas, with the largest increases as a % of prior year tax revenues observed in South King County and Pierce County.

A summary of tax revenues by subarea is as follows:

Table S-5

Tax Revenues by Equity Area

(in millions)	As of December 31			% Change	
	2004	**2003**	**2002***	**2004 - 2003**	**2003 - 2002**
Snohomish County	$ 35.3	$ 33.4	$ 32.8	5.7%	1.8%
North King County	72.0	69.4	70.8	3.7%	(2.0%)
South King County	53.8	49.6	52.3	8.5%	(5.2%)
East King County	73.3	69.7	64.4	5.2%	8.2%
Pierce County	51.5	47.9	44.7	7.5%	7.2%
Total Tax Revenues	**$ 285.9**	**$ 270.0**	**$ 265.0**	**5.9%**	**1.9%**

**Restated for a Prior-Period Adjustment*

Tax revenue increases by subarea were as follows:

- In Snohomish County tax revenues increased by $1.9 million or 5.7%, with sales tax up $1.3 million or 5.4% and motor vehicle excise taxes up $0.6 million or 6.3 %. Rental car taxes were substantially unchanged from prior year.
- In North King County, tax revenues increase by $2.6 million or 3.7%, with sales taxes up $2.7 million or 4.8% and motor vehicle excise taxes and rental car taxes comparable to the prior year.
- In South King County, tax revenues were up $4.2 million or 8.5%, with sales taxes up $3.3 million or 8.6% and motor vehicle excise taxes up $820 thousand or 7.8%. Rental car taxes were substantially unchanged from prior year.
- In East King County, tax revenues were up $3.6 million, with sales taxes up $2.5 million or 4.8%, and motor vehicle excise taxes up $1.1 million or 6.9%. Rental car taxes were substantially unchanged from prior year.
- In Pierce County, tax revenues were up by $3.6 million, with sales taxes up $2.5 million or 7.3% and motor vehicle excise taxes up $1.1 million or 8.0%. Rental car taxes were substantially unchanged from prior year.

Interest Expense

As in 2003, capital activity in 2004 supported full capitalization of the interest expense on the Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999. Interest expense is charged to each subarea in proportion to their share of the debt and capitalized to projects in relation to construction spending during the year.

Management's Discussion of Subarea Equity, continued

Discontinued Projects

In accordance with generally accepted accounting principles, the costs of discontinued projects are written off once a determination has been made not to continue a project or that a significant change has been made that materially alters the project. In 2004, $0.2 million in costs were written off related to unspecified ST Express projects and $0.1 million in 2003 related to the Boeing Access Road project in South King County.

Capital Contributions

Capital contributions decreased in 2004 by $31.7 million or 108.9% from 2003. Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvements or funding agreements. The decrease in capital contributions relates to capital contributions to other governments of $99.1 million, partially offset by $62.9 million in higher federal grant drawdowns and state land and airspace lease contributions. Capital contributions to other governments are significantly impacted by the timing of completion of related projects, of which several large projects were completed in 2003. Some of the significant changes by subarea are highlighted as follows:

- Net capital contributions were down $21.4 million in Snohomish County related to contributions to other governments which included the completion of the Lynnwood HOV project in 2004, whereas no significant non-Sound Transit-owned projects were completed in 2003. Federal grant and state and local contributions were up $1.7 million in 2004.
- Net capital contributions were up $44.0 million in North King County, related to higher federal, state and local capital contributions. Federal contributions were $38.9 million for the year as construction spending occurred on the Link Light rail project and state contributions under the Land Bank agreement were $24.9 million. In 2003, there were no appropriations under the Link full-funding grant agreement.
- Net capital contributions were up $16.2 million in South King County, also related to higher federal capital contributions related to spending on the Link Light rail project.
- Net capital contributions were down $72.4 million in East King County, related to contributions to other governments which included the completion of the Bellevue HOV project in 2004, whereas in 2003 there were not any non-Sound Transit-owned projects completed. Federal, state and local capital contributions were comparable to the prior year.
- Net capital contributions were up $1.5 million in Pierce County. Federal, state and local contributions were comparable to 2003 and there were no significant contributions to other governments in 2004, whereas in 2003 there was a $1.7 million contribution to the City of Lakewood for street improvements related to the Lakewood Station project.
- Net capital contributions were up $0.4 million in the Regional Fund.

Contributions to Regional Fund

No contributions to Regional Fund were made in 2004 as the regional fund is in a positive net asset position. As described in Note 6 to the Schedule of Subarea Equity, up to 10% of a subarea's total tax revenues may be utilized to fund regional fund activities.

Management's Discussion of Subarea Equity, continued

Capital Assets

Capital assets are comprised of capital projects in progress and property, vehicles and equipment, net of depreciation. At December 31, 2004 capital assets were $1.8 billion, an increase of $407 million from 2003. A summary of major changes at December 31, 2004 by equity area is as follows:

- Capital assets for Snohomish County were $286.8 million, comprised of $20.2 million in land, $158.1 million in perpetual easements from BNSF for Seattle-to-Everett corridor, $59.5 million in capital projects in progress and $49.0 million in depreciable assets. This represents a $68.4 million increase from the prior year, of which $79.0 million relates to permanent easements with the acquisition from BNSF of the second of four easements in the Seattle-to-Everett corridor for $79.0 million. Capital projects in progress decreased by $10.5 million with the completion of the Lynnwood HOV project ($23.3 million), net of current year spending of $10.5 million on both the Lynnwood and Ash Way HOV projects as well as track and signal improvements on the Seattle-to-Everett corridor.
- Capital assets in North King County were $586.9 million, comprised of $140.6 million in land, $446.0 million in capital projects and $0.3 million in depreciable assets. This represents a $212.9 million increase related to the Link light rail project. During 2004, capital spending included $52.4 million in land acquisitions and $160.3 million in capital projects in progress, including progress on the Link Central Line (CPS to 154th; Downtown and Beacon Hill tunnels, Martin Luther King Way; South Morgan to Norfolk; and, 126th St. to 150th Street), Beacon Hill Station, the Link E-3 Busway, the Operations and Maintenance Base and light rail vehicles.
- Capital assets in South King County were $422.2 million, comprised of $48.2 million in land, $163.5 million in capital projects and $210.5 million in depreciable property. This represents an $92.6 million increase from the prior year, reflecting $15.5 million in land acquisitions, and spending Capital projects increased by $62.9 million with major projects expenditures including: Auburn-to-Seattle track and facilities ($21.5 million); Link Central Line ($46.7 million – CPS to 154th; 126th to 150th Street, and the Operations and Maintenance Base); and the Federal Way Transit Center and HOV access ($16.3 million).
- Capital assets in East King County were $122.7 million, comprised of $8.8 million in land, $55.2 million in capital projects and $58.7 million in depreciable assets. This represents a $2.7 million decrease from the prior year, reflecting the completion of the Bellevue HOV Access ($68.8 million), a non-ST-owned capital project, which was expensed as a Capital Contribution to Other Governments during the year. Major project spending in 2004 included $15.8 million on bus revenue vehicles, $34.3 million on the Bellevue HOV access, $2.6 million on Eastgate Transit access and $3.1 million on the Sammamish Park-and-Ride.
- Capital assets in Pierce County were $323.2 million, comprised of $29.2 million in land, $35.1 million in capital projects and $258.9 million in depreciable property. This represents a $33.3 million increase from the prior year that includes an increase in land of $10.3 million and spending on major projects as follows: Auburn-to-Seattle track and facilities ($19.7 million); Tacoma-to-Lakewood track and facilities ($9.3 million); and Pierce layover ($5.9 million).
- Capital assets in the Regional Fund were $31.7 million, comprised of $10.8 million in Regional Fund projects and $20.9 million in depreciable assets, mostly related to Union Station and related furniture, fixtures and equipment. This represents an increase from the prior year of $2.1 million. The amount included in Regional Fund capital projects relates to costs not yet absorbed by construction spending from the owner-controlled insurance program, as well as research and technology projects managed by the Office of Policy and Planning. Included in this year's spending was $2.0 million in software and equipment additions as the Agency upgraded its project management system as well as replaced copiers.

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Independent Accountants' Report on Applying Agreed-Upon Procedures

The Audit and Reporting Sub Committee of the Board of Directors
Central Puget Sound Regional Transit Authority:

We have performed the procedures enumerated below, which were agreed to by the Audit and Reporting Sub Committee and management, the Citizens Oversight Panel, and management of Central Puget Sound Regional Transit Authority (Sound Transit), solely to assist you in evaluating the accompanying Schedule of Subarea Equity (the Schedule) (prepared in accordance with the criteria specified therein) for the year ended December 31, 2004. Sound Transit's management is responsible for the Schedule. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The appendices to the engagement letter outlined the agreed-upon procedures to be applied to the Schedule as of and for the year ended December 31, 2004. Throughout these procedures there is reference to subarea allocation rules, which are described in Note 1 of the unaudited schedule – Significant Subarea Accounting Policies.

The procedures that we performed on the accompanying schedule and our findings are as follows:

Schedule of Subarea Equity

1. We agreed each amount in the total column of the Schedule of Subarea Equity to the audited financial statements of Sound Transit, without exception.

2. We verified the mathematical accuracy of the totals and subtotals shown on the Schedule, without exception.

Operating Revenues

Passenger Fares

3. **Regional Express passenger fare revenues**: We recalculated the amount of Regional Express passenger fare revenues allocated to each subarea by multiplying the allocation percentages, computed from platform hours, subarea boardings and average fare per boarding provided by Sound Transit, by the total Regional Express passenger fare revenues recorded in the general ledger. In addition, we recalculated the allocation percentages described above, without exception.

4. **Sounder passenger fare revenues**: We recalculated the amount of Sounder passenger fare revenues allocated to each subarea by multiplying allocation percentages, computed from the 2002 survey of ridership boardings provided by Sound Transit, by the total Sounder passenger fare revenues. In addition, we recalculated the allocation percentages based on the survey results, without exception.

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Other Operating Revenues

5. **Advertising revenues**: We judgmentally selected a sample of 5 receipts recorded in advertising revenues. We vouched the sample to underlying support provided by Community Transit and Pierce Transit and verified the revenues had been allocated in accordance with the allocation percentages derived from the annual estimate of platform hours identified in the Regional Express Service Implementation Plan. In addition, we recalculated the allocation percentages described above, without exception.

6. **Building rental revenues**: We judgmentally selected a sample of 5 building rental lease agreements. We verified that the applicable revenue under the agreement had been recorded and that the amounts were recorded in the appropriate subarea or Regional Fund, based upon the location of the leased premises, without exception.

7. **Revenue vehicle rental revenues**: We judgmentally selected a sample of 5 receipts recorded in revenue vehicle rental revenues. We verified that the revenues had been allocated to each subarea on a consistent basis with the underlying vehicle, as recorded in the fixed asset subledger, without exception.

Operating Expenses

8. **Transit operation and maintenance expenses**: We judgmentally selected a total of 25 charges to operations and maintenance expense. The sample selection included charges to Regional Express, Sounder and Link operations. We vouched this selection to underlying vendor invoices or purchase agreements and agreed to the Sound Transit check issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea based on the supporting documentation. Where a charge benefited more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules, without exception. We noted that one of selections related to Link operations did not allocate the $26,600 to the proper subareas or line of businesses need to state which were Snohomish County, South King County, East King County and Pierce County for Regional Express; Snohomish County, South King County and Pierce County for Link. We have reviewed the subsequent correction of the difference noted above without exception.

9. **General and administrative expenses**: We judgmentally selected a total of 25 charges to general and administrative expense. The sample selection included charges to Regional Express, Sounder, Link and the Regional Fund. We vouched this selection to underlying vendor invoices or purchase agreements and agreed to the Sound Transit check issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea or Regional Fund based on the supporting documentation. Where a charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules, without exception.

10. **Depreciation expenses:** We agreed the depreciation expense total for each subarea and for the Regional Fund to the year-end reconciliation report from the fixed asset subledger, without exception.

Nonoperating Revenues

11. **Sales and rental car tax revenues**: We judgmentally selected three months during the year ended December 31, 2004 and agreed the amount of sales and rental car tax recorded in the general ledger to supporting RTA Distribution Schedules received from the Department of Revenue and as modified by Sound Transit personnel. In addition, we agreed total revenues on the supporting

schedules to the Washington State Department of Revenue monthly distribution reports and verified that the revenue was properly classified to the appropriate subarea, without exception.

12. **Motor vehicle excise tax**: We judgmentally selected three months and agreed the amounts of motor vehicle excise tax to schedules prepared by Sound Transit personnel. We agreed total revenues on the supporting schedules to the Washington State Department of Licensing (DOL) excise tax collection reports and verified that the revenue was properly allocated to the appropriate subarea as reported by DOL. At December 31, 2004, we requested a confirmation of zip code assignment by subarea from DOL. We judgmentally selected 25 zip codes, of which 5 selections included split zips, from the confirmation and ensured they are assigned to the correct geographical subarea by tracing the zip code to the zip code map maintained by Sound Transit's office of Policy and Planning, or by utilizing the Postal Service web site. In addition, for the 5 split zip codes, we ensured that the revenues were allocated in accordance with Note 5 to the Schedule of Subarea Equity, without exception.

13. **Grant revenues**: We judgmentally selected 10 grant drawdown requests from the Federal Form 269A. For each selection, we traced a judgmentally selected sample of 3 disbursements or charges from the drawndown request's Detail Grant Outlay Report by Business Unit and Subsidiary to the underlying invoice detail and its supporting documentation. In addition, we verified that the grant revenues had been coded to the correct subarea by agreeing the total from the Detail Grant Outlay Report by Business Unit and Subsidiary to the Actual Grant Reimbursements Revenues (Drawndown Revenues) report and then traced the distribution to the journal entry posted to the general ledger, without exception.

14. **Interest and investment revenues**: We judgmentally selected a sample of 15 interest and investment income entries from the general ledger related to unrestricted investments and agreed each sample selected to the supporting accrual, daily bank reports or investment statements. We verified that the interest is appropriately classified to the Regional Fund as outlined in *Sound Move Appendix B: Financial Policies*. In addition, we judgmentally selected a sample of 10 interest and investment income entries from the general ledger earned on investments related to the restricted investments, such as Burlington Northern Santa Fe Railway Letter of Credit agreement, and verified the revenue was allocated to the proper subarea on a basis consistent with the subarea classification of the restricted asset, without exception.

Nonoperating Expenses

15. **Interest and bond issuance expenses**: We recalculated interest expense related to long-term debt and amortization of bond issuance costs based on allocation methodology outlined in Sound Transit's financial policy – *Subarea Financial Guidance* and as described in the notes to the Schedule, without exception.

Other

16. **Contribution to Regional Fund**: We verified the mathematical accuracy of contributions to the Regional Fund by adding total tax revenues for each subarea and multiplying the sum by the percentage prescribed in the current financial plan and as described in the notes to the Schedule, without exception.

17. **Total net assets beginning and ending of year**: We agreed the total net assets, beginning of year for each subarea to the published schedule of subarea equity for the year ended December 31, 2003. In addition, we verified the mathematical accuracy of the ending equity balance for each subarea by adding beginning equity and the excess of revenues over expenses for the year then ended, without exception.

Capital Assets

18. **Charges to capital projects**: We judgmentally selected a sample of 25 charges to capital projects in progress from a listing of entries to construction in progress general ledger accounts, including charges to projects that may have been completed during the year. We vouched the amounts to the underlying vendor invoice or purchase agreement and Sound Transit payment and determined whether each charge was properly classified into the appropriate sub-area. Where a direct vendor charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rule, without exception.

19. **Charges to property and equipment**: We judgmentally selected a sample of 25 charges posted to the properties and equipment accounts, exclusive of the capital projects in progress accounts described above in Item 18. We vouched the amounts to the underlying vendor invoice or purchase agreement and Sound Transit payment and determined that each charge was properly classified into the appropriate subarea. Where a charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules, without exception.

20. **Accumulated depreciation**: We agreed accumulated depreciation as reported on the Schedule to the underlying depreciation records, and determined that the amounts allocated to each subarea agreed to the year-end reconciliation report from the fixed asset subledger, without exception.

Bonds Payable

21. **Bonds payable**: We recalculated amounts allocated to each subarea based on the current financial plan and as described in the notes to the Schedule, without exception.

Net Assets

22. **Invested in capital assets, net of related debt**: We recalculated invested in capital assets, net of related debt, by subarea by subtracting the invested in long-term debt from capital assets presented within the Schedule, without exception.

23. **Restricted**: We recalculated amounts presented in the Schedule by subarea by examining the underlying nature of the restricted asset. For those restricted assets for which the final subarea determination was not yet known, we confirmed that the amount had been assigned to the Regional Fund until actual spending had occurred, without exception.

24. **Unrestricted**: We verified the calculation of unrestricted net assets by subtracting invested in capital assets, net of related debt and restricted net assets from total net assets for each subarea, without exception.

Allocated Charges

25. **Allocated Charges:** We judgmentally selected a sample 25 charges from capital, operations and maintenance and general and administrative expenses. For each selection, we verified that each charge was properly classified into the appropriate subarea or Regional Fund, utilizing the Board approved allocation rule. We noted that three of our selections related to operating expenses which were not allocated to the proper subarea. The three exceptions related to the allocation of two different routes. The first route, for which there were two exceptions, resulted in a variance of $37,091. The second route had a variance of $4,958. We have reviewed the subsequent correction of the differences noted above without exception.

Inter-Subarea Borrowings:

26. We verified through a review of the financial model provided that all inter-subarea borrowings within the financial model are refinanced annually and include annual interest earnings and charges at the forecasted rate of inflation (Seattle CPI-U) through 2009, without exception.

27. We verified through review of the financial model provided by Sound Transit that there has been no inter-subarea lending in the financial model for the years after 2009, without exception.

Debt Service Coverage Calculation

28. We recalculated the net debt service coverage ratio by year in the financial model for each subarea and the agency as a whole for the period 1997 - 2025. The net debt service coverage ratio is defined as tax revenues, fares, grants (formula), inter-subarea transfers less operations and maintenance costs divided by debt service less initial debt service payments, without exception.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Schedule. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Audit and Reporting Subcommittees of the board of directors, the Citizens Oversight Panel, and managements of Sound Transit, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 15, 2005

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MANAGEMENT'S ANALYSIS OF EXCEPTIONS FOUND IN THE AGREED UPON PROCEDURES TO THE SCHEDULE OF SUBAREA EQUITY

Year Ended December 31, 2004

Procedure No. 8: Transit Operation and Maintenance Expenses

An invoice for market research in the amount of $26,600 was expensed to Tacoma Link (Pierce subarea) when it should have been expensed to Sounder operations (Snohomish, South King, and Pierce subareas), REX operations (Snohomish, South King, East King, and Pierce subareas) and Tacoma Link (Pierce subarea). The financial analyst indicated the correct mode and subarea percentage splits to be used, but there was a miscommunication to the staff person entering the invoice from the approving manager. The correction reduced Pierce overall service expense by 0.4%, increased Snohomish overall service expense by 0.3%, increased South King overall service expense by 0.1%, and increased East King overall service expense by 1.4%. The necessary correcting entry has been reflected in the 2004 Schedule.

To reduce the likelihood of miscommunication, for services or purchased goods ordered by an administrative staff department that will be charged to transit operations, accounts payable will now require additional invoice documentation that supports the source (financial analyst) of the percentage allocation or supporting correspondence.

Procedure No. 25: Allocated Charges

Two routes were identified as using incorrect subarea percentage splits. The 2004 subarea split wasn't updated for both routes on the invoice coding template. One route operated between Snohomish County and East King County. Two months were processed correctly since the percentage split on the template was manually corrected for payment was issued. The total impact of the error was $201,397 or 2.7% of Community Transit invoices. The second route operated between South King County and East King County. The total impact of the error was $145,494 or 0.6% of King County Metro invoices. Also identified was the subarea percentage split used for additional expenses for King County Metro such as fuel or supplies. A specific route percentage split was used when it should've been a percentage split based on King County Metro platform hours in South King and East King. The total impact of the error was $55,021 or 0.2% of King County Metro invoices. These errors have been corrected within the 2004 Schedule.

To reduce the likelihood of this error occurring in 2005, the invoice coding templates used to allocate purchased transportation have been updated for 2005 using the correct subarea percentage splits. The templates were reviewed by the transit operations financial analyst and the transit operations accountant. In 2005 all purchased transportation invoices will be reviewed by the transit operation financial analyst before the invoices are sent to Accounts Payable for payment. On a quarterly basis, the transit operations accountant will review reports of paid invoices to verify that correct percentages are applied.

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Central Puget Sound Regional Transit Authority

Schedule of Subarea Equity
For the Year Ending December 31, 2004

Schedule of Subarea Equity

For the Year Ending December 31, 2004

(in thousands)	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Operating Revenues							
Passenger fares	$ 1,764	-	$ 1,576	$ 5,764	$ 4,101	$ -	$ 13,205
Other operating revenues	611	655	833	15	1,253	36	3,403
Total Operating Revenues	**2,375**	**655**	**2,409**	**5,779**	**5,354**	**36**	**16,608**
Operating Expenses							
Operations and maintenance	9,560	-	13,036	25,651	22,623	-	70,870
General and administrative	59	1,188	489	100	768	15,653	18,257
Loss (gain) on disposal of assets	22	-	42	-	45	(1)	108
Depreciation	3,433	18	4,372	3,900	8,272	2,961	22,956
Total Operating Expenses	**13,074**	**1,206**	**17,939**	**29,651**	**31,708**	**18,613**	**112,191**
Loss from Operations	**(10,699)**	**(551)**	**(15,530)**	**(23,872)**	**(26,354)**	**(18,577)**	**(95,583)**
Non-Operating Revenues (Expenses)							
Sales tax and rental car tax	25,597	59,191	42,464	56,579	37,355	-	221,186
Motor vehicle excise tax	9,657	12,865	11,330	16,758	14,104	-	64,714
Other non-operating revenues	-	134	886	-	726	8,895	10,641
Non-operating expenses	-	(3,492)	-	-	-	(8,830)	(12,322)
Interest expense	-	-	-	-	(36)	(38)	(74)
Discontinued projects	(144)	-	(50)	-	-	-	(194)
Loss on change in interlocal agreement	-	(4,584)	-	-	-	-	(4,584)
Gain (loss) on disposal of assets	-	-	(31)	-	(889)	-	(920)
Total Non-Operating Revenues	**35,110**	**64,114**	**54,599**	**73,337**	**51,260**	**27**	**278,447**
Contributions and Transfers							
Contributions to other governments	(25,645)	-	(891)	(72,505)	(77)	-	(99,118)
Federal capital contributions	4,421	38,860	16,721	1,682	6,719	439	68,842
Other capital contributions	270	19,545	7,646	-	118	38	27,617
Total Contributions	**(20,954)**	**58,405**	**23,476**	**(70,823)**	**6,760**	**477**	**(2,659)**
Excess of Revenues over Expenses	**3,457**	**121,968**	**62,545**	**(21,358)**	**31,666**	**(18,073)**	**180,205**
Total Net Assets, Beginning of Year	**193,649**	**534,349**	**379,453**	**363,740**	**266,856**	**140,794**	**1,878,841**
Total Net Assets, End of Year	**$ 197,106**	**$ 656,317**	**$ 441,998**	**$ 342,382**	**$ 298,522**	**$ 122,721**	**$ 2,059,046**

See Notes to Schedule of Subarea Equity

Schedule of Subarea Equity, *continued*

For the Year Ending December 31, 2004

(in thousands)	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Capital Assets							
Non-Depreciable Assets							
Land	$ 20,270	$ 140,649	$ 48,237	$ 8,766	$ 29,180	$ -	$ 247,102
Permanent easements	$ 158,098	-	-	-	-	-	$ 158,098
Capital projects in progress							
Sound Transit	40,915	446,050	145,524	12,380	34,701	10,770	690,340
Other governments	18,513	-	17,930	42,854	417	-	79,714
Total Non-Depreciable Assets	**237,796**	**586,699**	**211,691**	**64,000**	**64,298**	**10,770**	**1,175,254**
Depreciable Assets							
Transit facilities and heavy equipment	20,271	-	61,438	24,561	107,158	-	213,428
Rail access rights			109,163		89,795		198,958
Buildings and leasehold improvements	-	119	20	-	-	22,760	22,899
Revenue vehicles	37,731	-	52,653	46,604	85,998	-	222,986
Furniture, equipment and vehicles	-	140	19	-	-	12,631	12,790
Equipment under capital lease	-	-	-	-	-	957	957
Total Depreciable Assets	**58,002**	**259**	**223,293**	**71,165**	**282,951**	**36,348**	**672,018**
Less accumulated depreciation	(8,963)	(25)	(12,802)	(12,468)	(24,039)	(15,384)	(73,681)
Net Depreciable Assets	**49,039**	**234**	**210,491**	**58,697**	**258,912**	**20,964**	**598,337**
Total Capital Assets	**$ 286,835**	**$ 586,933**	**$ 422,182**	**$ 122,697**	**$ 323,210**	**$ 31,734**	**$ 1,773,591**
Long-Term Debt							
Bonds payable	$ 41,680	$ 140,669	$ 98,295	$ -	$ 66,687	$ -	$ 347,331
Other long-term debt	-	-	-	-	5,741	756	6,497
Less: unamortized bond issuance costs	(325)	(1,096)	(766)	-	(519)	-	(2,706)
Total Long-Term Debt, net of issuance costs	**$ 41,355**	**$ 139,573**	**$ 97,529**	**$ -**	**$ 71,909**	**$ 756**	**$ 351,122**
Invested in Capital Assets	**$ 245,480**	**$ 447,360**	**$ 324,653**	**$ 122,697**	**$ 251,301**	**$ 30,978**	**$ 1,422,469**

See Notes to Schedule of Subarea Equity.

Schedule of Subarea Equity, *continued*

For the Year Ending December 31, 2004

(in thousands)	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Inter-subarea (Borrowing) Lending	**$ (48,374)**	**$ 17,040**	**$ 9,569**	**$ 17,914**	**$ 3,851**	**$ -**	**$ -**
Net Assets							
Invested in capital assets, net of related debt	$ 245,480	$ 447,360	$ 324,653	$ 122,697	$ 251,301	$ 30,978	$ 1,422,469
Restricted							
Contractual arrangments	-	9,227	68,324	-	55,992	22,566	156,109
Insurance loss fund	-	-	-	-	-	6,799	6,799
Unrestricted	(48,374)	199,730	49,021	219,685	(8,771)	62,378	473,669
Total Net Assets	**$ 197,106**	**$ 656,317**	**$ 441,998**	**$ 342,382**	**$ 298,522**	**$ 122,721**	**$ 2,059,046**

See Notes to Schedule of Subarea Equity.

NOTES TO SCHEDULE OF SUBAREA EQUITY
For the Year Ending December 31, 2004

NOTE 1: SIGNIFICANT SUBAREA ACCOUNTING POLICIES

Revenues and expenditures directly associated with a particular subarea or project are directly credited or charged to that subarea. Revenues and expenditures benefiting more than one subarea or project are classified according to pre-established allocation rules that are expressed as percentages reflecting the Agency's assumptions regarding multiple subarea and project benefit. For capital projects these rules are developed based on the specific nature of the task rendered. For revenue and operations, maintenance, and general and administrative expenditures, rules are developed based on relevant activity drivers.

Substantially all of the Agency's expenditures are processed through the purchase order system and coding is assigned at the time the purchase order is issued. Generally projects are subarea specific; however, some projects benefit multiple subareas and accordingly allocation rules are applied. If a rule is updated based on service implementation changes or improved activity drivers, purchase order coding is updated for contracts that generally extend beyond one year, where the cost of the contract and the change to the equity area percentage would have a significant impact. For all remaining purchase orders, coding is updated to the current rule in use at the time the contract is renewed.

NOTE 2: OPERATING REVENUES

Passenger fares are attributed to ST Express operations in Snohomish County, South King County, East King County, and Pierce County subareas and to Sounder commuter rail operations in South King County and Pierce County subareas. ST Express passenger fare revenue is allocated to each subarea based on forecasted platform hours: 12.27% to Snohomish County; 7.06% to South King County; 53.75% to East King County; and 26.92% to Pierce County. Sounder passenger fare revenue for the Seattle-to-Tacoma service is allocated to each subarea based on a boarding survey: 35.49% to South King County and 64.51% to Pierce County. All revenue earned on the Seattle-to-Everett service is attributed to Snohomish County.

Other operating revenues consist of advertising revenues, building and rental revenues, vehicle rental revenues, and miscellaneous revenues. Advertising revenues are allocated to each subarea based on the bus route miles within each subarea. Building rental revenues are allocated to each subarea based on the location of the buildings. Revenue vehicle rental revenues are allocated to the subareas in the same proportion as the capitalized vehicles: 20.95% to Snohomish County; 36.90% to South King County; and 42.15% to Pierce County. Regional Fund revenues are primarily attributed to rental of the Great Hall for events throughout the year.

NOTE 3: OPERATING EXPENSES

Operating expenses are costs associated with generating operating revenue and include costs for ST Express bus services and Sounder commuter rail services. Operations and maintenance expenses and general and administrative expenses are charged to the subarea in which in the expense occurs. Expenses that are not specific to a single subarea are allocated based on cost allocation rules, such as track or route miles, operating hours, and facility and equipment locations.

Notes to Schedule of Subarea Equity, continued

NOTE 4: SALES AND RENTAL CAR TAX

Pursuant to Washington State RCW 81.104.170, Sound Transit has imposed a 0.4% sales and use tax for the purpose of providing high-capacity transportation service. This tax is in addition to the State of Washington sales tax and is collected by the Washington State Department of Revenue (DOR) on behalf of Sound Transit on all taxable transactions within Sound Transit's boundary. Sound Transit has also imposed a 0.8% sales and use tax on rental cars in lieu of motor vehicle excise taxes, as provided for in RCW 81.104.160.

Sales taxes are attributed to subareas based on city location reporting codes assigned by DOR to reporting entities. Cities are unique to subareas in all three counties with the exception of Redmond and Issaquah in King County. These cities that are not unique to subareas, along with unincorporated areas within King County, are allocated to subareas based on allocation methods developed by Sound Transit and provided to DOR. Sales and rental car tax revenues are then recorded by subarea, based on reports provided by DOR detailing sales tax by subarea based on the city location reporting codes and allocation methods described above.

NOTE 5: MOTOR VEHICLE EXCISE TAX

Pursuant to Washington State RCW 81.104.160, Sound Transit has levied a 0.3% motor vehicle excise tax for the purpose of providing high-capacity transportation service. The Washington State Department of Licensing (DOL) collects this tax on Sound Transit's behalf on applicable vehicles licensed within Sound Transit's boundary.

The motor vehicle excise tax is attributed to subareas based on the zip code in which the vehicle is licensed. DOL utilizes DOR's geographical information system to track, report and remit by zip code revenues within Sound Transit's boundary and provides reports detailing motor vehicle excise tax by subarea based on the zip code assignment. Where a zip code falls within two subareas, revenue is allocated between those two subareas based on their relative population.

NOTE 6: OTHER NON-OPERATING REVENUES (EXPENSES)

According to *Sound Move Appendix B: Financial Policies*, interest earnings (other than those specifically associated with a subarea project or unspent bond proceeds) are allocated to the Regional Fund. Any additional amounts, above interest earnings, required to fund the Regional Fund for Phase I are contributed by the subareas based on proportional share of tax revenues, as described in Note 7. Regional Fund investment income reflects interest earned on investments and changes in market value.

Interest income earned on investments related to the Burlington Northern and Santa Fe Railway repurchase agreement is allocated to each subarea based on the relative percentage of track or route miles located in each subarea. Of the total track miles, 54.96% are in the South King County subarea and 45.04% are in the Pierce County subarea.

Capital contributions are attributable to subarea specific projects identified in the grant award and are earned as qualifying expenditures are incurred.

Notes to Schedule of Subarea Equity, continued

NOTE 7: CONTRIBUTIONS TO THE REGIONAL FUND

Based on the 2005 Financial Plan for Phase I of *Sound Move*, 1997 through 2009, there were no contributions to the Regional Fund required in 2004. Contributions are made to the Regional Fund on an annual basis to pay for programs throughout Phase I. According to *Sound Move Appendix B: Financial Policies,* subareas may contribute up to 10% of tax revenues for funding of the Regional Fund.

NOTE 8: CAPITAL ASSETS

Capital assets include non-depreciable and depreciable assets. Capital asset costs are allocated to the subarea in which the asset or project is located or was allocated under *Sound Move*. For asset or project costs that are not specific to a single subarea, capital costs are distributed based on cost allocation rules such as track miles.

Non-depreciable assets: Non-depreciable assets include land and capital projects in progress. Capital projects in progress include project costs that are being accumulated before an asset is put into service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that are built by Sound Transit pursuant to agreements with other governments and where Sound Transit does not maintain a continuing ownership interest. Costs are either specific to a subarea or are allocated to a subarea based on board approved rules reflective of *Sound Move Appendix A: Detailed Description of Facilities and Costs* and *Sound Move Appendix B: Financial Policies*.

Depreciable assets: Other non-depreciable and depreciable assets include: land; transit facilities and heavy equipment; buildings and leasehold improvements; revenue vehicles; furniture, equipment, and vehicles; and assets under capital leases that have been placed into service. Costs are either specific to a subarea or are allocated to a subarea based on board approved rules reflective of *Appendix A* and *Appendix B*.

NOTE 9: LONG-TERM DEBT AND INTER-SUBAREA BORROWING

Consistent with *Sound Move*, the Agency issues debt and manages its cash on a consolidated basis. Commencing December 31, 2003, Phase I bonds, interest expense and bond issuance costs are allocated to each subarea on a basis consistent with the forecasted total bond allocation included in the annual updated Financial Plan for Phase I. Any changes in annual allocation are done prospectively. At the end of Phase 1, a reconciliation will be performed to substantiate debt issuance, related interest expense and related issuance costs by subarea.

Sound Transit's subarea financial and debt policies provide for inter-subarea borrowings based on a subarea's need prior to the completion of Phase I. This need occurs when a subarea's restricted and unrestricted net assets are in a combined deficit position. From 1997 to 2003 there had not been any inter-subarea borrowings. In December of 2004, Snohomish County incurred a negative net asset position, as defined above, and accordingly required subarea loans to cover the deficit position. These loans have been recorded in the schedule, with the borrowings from the other subareas made on a prorata share of each of their positive net asset positions. Interest on any subarea borrowing is paid in arrears based on the Seattle consumer price index.

Prior to December 31, 2003, the 1999 bond issuance was allocated based on *Sound Move Appendix A: Detailed Description of Facilities and Costs* which was the basis for the finance plan that was in effect when the bonds were issued. On December 31, 2004, the 1999 bond issue was reallocated based on the

Notes to Schedule of Subarea Equity, continued

current 2005 Finance Plan. Interest costs incurred on the 1999 bond issue to December 31, 2004 will be part of the overall Phase I reconciliation. Interest expenses and related issuance costs incurred after 2004 will be allocated based on the current financial plan. The table below depicts the current and prior year allocation of the 1999 bond issue:

	Percentage of Total		
Subarea	December 31 2004	December 31 2003	Debt Service Expenditures
			(in thousands)
Snohomish County	12.00%	14.54%	$ 2,496
North King County	40.50%	37.25%	6,393
South King County	28.30%	31.04%	5,327
East King County	-	-	-
Pierce County	19.20%	17.17%	2,947
Total	**100.00%**	**100.00%**	**$ 17,163**

NOTE 10: TOTAL NET ASSETS AND RESOURCES AVAILABLE FOR INVESTMENT

Total net assets are the aggregate amount of revenues less expenses and related debt service from 1997 through 2004. Revenues include taxes, grants, interest, fares and other revenues. Expenses include transit operations, general and administrative, interest, depreciation and other expenses. Total net assets, less capital investments, represent the amount still available for investment by each subarea for Phase I to date. This available investment amount does not include future bond issues related to completing Phase I capital projects. The table below depicts total net assets, capital investments to-date, and resources available for investment as of December 31, 2004:

Subarea	Total Net Assets	Capital Investments through 2004	Available for Investment
	(in thousands)		
Snohomish	$ 197,106	$ 245,480	$ (48,374)
North King	656,317	447,360	208,957
South King	441,998	324,653	117,345
East King	342,382	122,697	219,685
Pierce	298,522	251,301	47,221
Regional Fund	122,721	30,978	91,743
Total	**$ 2,059,046**	**$ 1,422,469**	**$ 636,577**